Statement of Senator Tim Johnson
Senate Committee on Banking, Housing and Urban Affairs
"Turmoil in US Credit Markets: Recent Actions Regarding Government Sponsored Entities, Investment Banks and Other Financial Institutions."
September 23, 2008

Thank you Chairman Dodd and Ranking Member Shelby for holding this hearing today. Our financial sector is facing grave difficulties, and it is necessary that this Committee has the opportunity to ask the regulators before us some important questions.

For the past seven years, this administration has stifled regulation and oversight at every turn. Now, the Administration has asked Congress for the authority to buy up to $700 billion worth of residential and commercial mortgage-related assets from troubled Wall Street financial institutions. They are also asking that this package have no strings attached.

In South Dakota, we believe strongly in personal responsibility. When you make mistakes, you should be held accountable for those decisions. That is true for the folks who overextended themselves on their mortgages, and it's also true for those on Wall Street who underwrote that bad debt. This package may be a necessary evil, but we cannot allow it to be a gift.

This package should have teeth, with real regulatory review and thorough oversight from Congress. We should start by making sure that no American tax dollars in this package are committed to benefitting foreign banks. Any American tax dollars committed in this package should be reserved exclusively for our American banks and for the benefit of our broad American economy. And this package must contain limits on executive pay. Folks in South Dakota work hard, and their earnings should not subsidize the compensation of a CEO of a failing firm.

In March, I described the Bear Stearns "bailout" as "unprecedented." However, in the last two weeks, the Administration has taken steps that could not have been predicted at that time –for example, providing relief to a company that the federal government currently does not regulate, and deciding to insure money market funds.

It is staggering to think back less than three months ago, when Congress had difficulty convincing the Administration to accept our housing bill, which included the FHA proposal and $4 B\billion in community development block grant (CDBG) funds to help Americans who continue to hurt the most from the housing crisis. The scope of authority the Administration is now requesting is breathtaking, and the price tag even more concerning, yet we are prompted to act because inaction would allow the poor decisions of Wall Street to drag down our entire economy. We must act to protect all American's savings, homes, access to credit and job stability.

Today, we need answers from the regulators as to how we got to this point, and specifics about how our regulatory system failed us. We also need to begin a very candid discussion between the regulators and this committee as to how we can change the regulatory structure so that this type of crisis never happens again. Our system needs good, effective regulation that balances consumer protection and allows for sustainable economic growth.

For years many members of this committee, myself included, have been calling for just this sort of regulation, and time after time this administration and Republican leadership blocked those changes. There should be no mistake that change is coming. I look forward to working with the members of this Committee to institute the changes needed to guarantee a responsible, modern regulatory system.